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FM AMEMBASSY ROME

TO RUEHC/SECSTATE WASHDC IMMEDIATE 6485

INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY

RUEHGB/AMEMBASSY BAGHDAD PRIORITY 0255

RUEHFL/AMCONSUL FLORENCE PRIORITY 1866

RUEHMIL/AMCONSUL MILAN PRIORITY 7858

RUEHNP/AMCONSUL NAPLES PRIORITY 1997

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

C O N F I D E N T I A L ROME 003047

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STATE NEA/I

E.O. 12958: DECL: 11/08/2016

TAGS: PREL ECON EFIN IZ IT

SUBJECT: IRAQ: NO CURRENT ITALIAN PLANS TO FORGIVE
REMAINING 20 PERCENT DEBT

REF: STATE 181094

Classified By: Economic Minister Counselor Tom Delare for reasons 1.4 (b) and (d).

¶1. (C) Summary: Government of Italy officials informed Emboffs that the GOI was not developing any plans to forgive the remaining 20 percent of debt that Iraq owes to Italy. A Ministry of Finance official explained this was due largely to legal constraints. Additionally, the MoF official explained that, given the contentious budget battle currently taking place in Italy, further debt forgiveness -- which would be added to Italy's budget deficit -- was "politically impossible" at the moment. End summary

¶2. (SBU) Italian MFA Iraq Task Force official Stefano Stucci told Poloff that Italy has forgiven 80 percent of Iraq debt owed to Italy and has rescheduled the remaining 20 percent in accordance with terms of the October 2005 Paris Club agreement. Stucci stated that there are no current plans to forgive the remainder of the debt. Stucci added, however, that although Italy consistently faces budgetary pressure, the GOI would continue to look for ways to contribute to Iraq through the ICI and other mechanisms.

¶3. (SBU) Raffaella Valentini, Deputy Director of the MFA's Office of Development Cooperation, Middle East and Balkans Affairs, reported to Econoff November 3 that while there are no current GOI plans to forgive the remainder of the debt, the MFA is committed to working with Iraqis on the ground in reconstruction efforts.

¶4. (C) Econoffs met November 7 with Filippo Giansante, Chief of the Paris Club Division, Department of International Affairs at the MoF, who also reported no plans or discussions with the Government of Iraq to forgive Iraq's remaining 20 percent debt with Italy. Giansante explained that the GOI was constrained by national legislation that allows the GOI to forgive 100 percent debt only to Heavily Indebted Poor Countries (HIPC) -- and Iraq is not an HIPC. Giansante also candidly explained that the GOI, currently facing a difficult budget battle and EU pressure to keep its deficit below 2.8 percent of GDP, could not forgive the remaining 20 percent of Iraqi debt without having said debt added to the country's deficit -- something "political impossible" right now, he opined.

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